

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Individuals, Estates and Trusts

1994

3805V

Attach to your California tax return.

Name(s) as shown on return

Social security number

Federal employer identification number

PART I Computation of current year NOL. Be sure to read the instructions for Part I.**Section A — Individuals, Estates and Trusts**

1	Adjusted gross income from Form 540, line 17 or Form 540NR, line 17. If negative, use brackets (estates and trusts, skip this line) .	1	_____
2	Enter itemized deductions or standard deduction(s) reported on Form 540, line 18 or Form 540NR, line 18 (estates and trusts, skip this line)	2	(_____)
3 a	Combine line 1 and line 2. (Estates and trusts, enter taxable income, see instructions). If negative, use brackets. If positive, enter -0- here and on line 20. Do not complete the rest of Part I; you do not have a current year NOL. Complete Parts II and III if you have a carryover from prior years.	3a	_____
b	1994 disaster loss included in line 3a	3b	_____
c	Decrease the loss on line 3a by the amount on line 3b. If negative, use brackets and continue to line 4. If zero or more, do not complete the rest of Part I. Enter the amount from line 3b, if any, on Part III, Section E, column (c), and complete Part II as instructed	3c	_____

Note: Enter amounts on line 4 through line 19 as if they were all **positive** numbers. See instructions.

4	Enter your nonbusiness capital losses	4	_____
5	Enter your nonbusiness capital gains	5	_____
6	If line 4 is greater than line 5, enter the difference; otherwise, enter -0-	6	_____
7	If line 4 is less than line 5, enter the difference; otherwise, enter -0-	7	_____
8	Nonbusiness deductions	8	_____
9	Nonbusiness income (other than capital gains)	9	_____
10	Add line 7 and line 9	10	_____
11	If line 8 is greater than line 10, enter the difference; otherwise, enter -0-	11	_____
12	If line 8 is less than line 10, enter the difference; otherwise, enter -0-	12	_____
13	Enter your business capital losses	13	_____
14	Enter your business capital gains	14	_____
15	Add line 12 and line 14	15	_____
16	If line 13 is greater than line 15, enter the difference; otherwise, enter -0-	16	_____
17	Add line 6 and line 16. See instructions	17	_____
18	NOL and disaster loss carryovers from prior years. See instructions	18	_____
19	Add line 11, line 17 and line 18	19	_____
20	Combine line 3c and line 19. If greater than zero, enter -0-, you do not have a current year NOL to carryover	20	_____
21	Enter the amount from line 20 that represents losses incurred by a new business and/or an eligible small business. Do not enter more than the amount on line 20	21	_____
22	Subtract line 21 from line 20	22	_____
23	General NOL. Multiply line 22 by 50% (.50)	23	_____
24	1994 NOL carryover. Add line 21 and line 23. See instructions	24	_____

Section B — Nonresidents and Part-Year Residents Only — Computation of Current Year California NOL

Do not complete this section if line 20 is zero.

Note: Enter amounts on line 25 through line 29 as if they were all **positive** numbers.

25	Enter the NOL from all sources from line 20 above	25	_____
26	Enter the California adjusted gross income from Form 540NR, line 20 if it is a loss. If it is not a loss, you do not have a California NOL	26	_____
27	California NOL amount included on Schedule CA (540NR), line 21 (d), column B, plus net capital loss on Schedule CA (540NR), line 13, column E	27	_____
28	If line 26 is more than line 27, enter the difference; otherwise, enter -0-	28	_____
29	Enter the smaller of line 25 or line 28	29	_____
30	Enter the amount from line 29 that represents losses incurred by a new business and/or an eligible small business. Do not enter more than the amount on line 29.	30	_____
31	Subtract line 30 from line 29	31	_____
32	General NOL. Multiply line 31 by 50% (.50)	32	_____
33	1994 NOL carryover. Add line 30 and line 32. See instructions	33	_____

PART II Determining 1994 Modified Taxable Income (MTI). Be sure to read the instructions for Part II.

1 Taxable income. See instructions **1** _____

Note: Enter amounts on line 2 through line 4 as if they were all **positive** numbers.

2 Capital loss deduction included in line 1 **2** _____

3 Disaster loss carryover included in line 1 **3** _____

4 Net operating loss carryover included in line 1 **4** _____

5 MTI combine line 1 through line 4. If line 5 is zero or less, enter -0- **5** _____

PART III NOL carryover and disaster loss carryover limitations

					(f) Available Balance	
1 Modified Taxable Income from Part II, line 5						
SECTION A General NOL						
(a) Year	(b) Code	(c) Loss	(d) Carryover from 1993	(e) Amount used in 1994		(g) Carryover to 1995 (column (d) – column (e))
SECTION B New Business						
(a) Year	(b) Code	(c) Loss	(d) Carryover from 1993	(e) Amount used in 1994		(g) Carryover to 1995
SECTION C Eligible Small Business						
(a) Year	(b) Code	(c) Loss	(d) Carryover from 1993	(e) Amount used in 1994		(g) Carryover to 1995
SECTION D Title 11 Bankruptcy						
(a) Year	(b) Code	(c) Loss	(d) Carryover from 1993	(e) Amount used in 1994		(g) Carryover to 1995 (column (d) - column (e))
SECTION E Disaster Loss						
(a) Year	(b) Code	(c) Loss	(d) Carryover from 1993	(e) Amount used in 1994		(g) Carryover to 1995 (column (d) – column (e))

2 NOL carryover. Total the carryover amounts from Sections A, B, C, and D, column (g) **2** _____

3 Disaster loss carryover. Enter the total loss carryover amounts from Section E, column (g) **3** _____

1994 Instructions for Form FTB 3805V

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates and Trusts

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1993**, and the California Revenue and Taxation Code (R&TC).

Important Law Change

In general, California did not conform its law to changes made to the IRC by the federal Revenue Reconciliation Act of 1993 (Public Law 103-66). California legislation during 1994 did adopt specific provisions of the 1993 federal changes and these provisions are specifically identified when appropriate. All other references in these instructions are to the IRC as it existed on January 1, 1993.

Recent legislation added two new types of net operating losses (NOL). Taxpayers starting a New Business on or after January 1, 1994, or an Eligible Small Business with total business receipts of less than \$1 million can carry 100% of an NOL to subsequent years. See General Information for more details.

R&TC Section 17276 disallows the carryover of net operating losses attributable to taxable years beginning before January 1, 1987. Therefore, qualified loss carryovers from a new small business or farming activity incurred in 1984 through 1986 are no longer deductible.

General Information

Net Operating Losses And Disaster Losses

If your deductions for the year exceed your income, you may have an NOL carryover. The California NOL is generally figured the same way as the federal NOL. The differences for California are:

- an NOL may only be carried over to future years (no carrybacks are allowed);
- you can elect to carry over 100 percent of your NOL from an activity within an enterprise zone, a program area or the Los Angeles Revitalization Zone (LARZ) to offset income earned solely within the zone or area. Get form FTB 3805Z, Enterprise Zone/Program Area Business Booklet, or form FTB 3806, Los Angeles Revitalization Zone Booklet for more information; and
- The carryover period and percentages differ from federal allowances because California has established different categories of NOL. The following table shows the percentages and carryover periods for the various kinds of losses.

Type of NOL	% of NOL That Can Be Carried Over	Carryover Period
General NOL	50	5 Years
New Business — 1/1/94		
NOL Incurred:		
Year 1	100	8 Years
Year 2	100	7 Years
Year 3	100	6 Years
Eligible Small Business Gross receipts < \$1 million	100	5 Years
Taxpayer in Chapter 11 Bankruptcy	50	10 Years
Disaster Losses	100	5 Years
	50	10 Years

General NOL carryover means the general NOL available as a result of a loss incurred in years after 1986 and allowed under R&TC Section 17276. This category does not include losses incurred from activities that qualify as a new business, an eligible small business, an enterprise zone, program area, LARZ, or disaster loss. The carryover period for general NOLs is 5 years (6 years for losses incurred in 1991, 7 years for losses incurred in 1987 through 1990.) 1994 is the 7th and final carryover year for General NOLs incurred in 1987.

New Business NOL carryover means the NOL incurred by a new business commencing in California on or after January 1, 1994. The definition of a new business does not include any business formed through the acquisition of more than 20 percent of the fair market value of the assets of an existing business (R&TC Section 17276(f)).

Eligible Small Business NOL carryover means losses incurred after January 1, 1994, by taxpayers who, during the taxable year, have gross receipts less returns and allowances of less than \$1 million.

Bankruptcy NOL carryover means the NOL incurred from 1987 through 1993 by taxpayers who were under the jurisdiction of the court in Title 11 bankruptcy proceedings **prior to** January 1, 1994.

Disaster Losses

You may carry over 100 percent of specified disaster losses for up to 5 years and 50 percent of any excess loss remaining after 5 years may be carried over up to an additional 10 years.

A Purpose of Form

Use form FTB 3805V to figure the current year NOL and to limit the NOL and disaster loss carryover deductions.

Form FTB 3805V is divided into three parts:

- Use Part I to figure the current year NOL, if any, to be carried over to future years.
- Use Part II to calculate your modified taxable income (MTI). MTI is the amount of

your taxable income that can be offset by your prior year's loss carryover.

- Use Part III to calculate:
 1. how much of your 1994 disaster loss and prior years' NOL carryovers have been used in 1994, and
 2. the amount of loss carryovers remaining to be carried over to future years.

B Who Must File

Individuals, estates and trusts must use form FTB 3805V to calculate the NOL. Corporations use form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations.

C Nonresidents and Part-Year Residents

Current Year Loss

You must figure your current year NOL in two steps:

Step 1 — Complete Part I, Section A, as though you were a full-year California resident for the current year and all prior years to figure your NOL from all sources for 1994.

Step 2 — Complete Part I, Section B, to figure how much of the NOL amount in Section A you may carry over and deduct for California purposes in future years. This is your California NOL.

Note: You may not include your itemized deductions in your California NOL.

Caution: You do not have a California NOL if you do not have an NOL from all sources. Your California NOL is limited to the amount of your negative California adjusted gross income (without regard to your net capital losses) or your NOL from all sources, whichever is the smaller loss.

You may carry over the amounts from Section A and Section B and deduct them on Schedule CA (540NR), California Adjustments, in future years.

Carryover from prior years

Two steps are also required if you had an NOL carryover from a prior year that you are deducting in 1994:

Step 1 — Complete Parts II and III as though you were a full-year California resident for the current year and all prior years to figure how much of your loss carryover has been used in 1994 and how much is left to carry over to 1995.

Step 2 — Complete Parts II and III again using the figures from Schedule CA (540NR) to determine how much of your California loss has been used in 1994 and how much is left to carry over to 1995.

Specific Line Instructions

Part I — Current Year NOL

Use Part I to figure your current year NOL, if any, to carry over to future years.

If you have losses from more than one source and/or more than one category, it may be necessary to compute the allowable NOL carryover for each loss separately.

If you do not have a current year NOL, skip Part I and go to Part II.

Section A — Individuals, Estates and Trusts

Line 3 — Estates and trusts, enter the amount from your 1994 Form 541, line 19, or Form 109, line 14.

Line 4 through line 7 — You may deduct nonbusiness capital losses up to the amount of nonbusiness capital gains. You may not deduct any excess of nonbusiness capital losses over nonbusiness capital gains.

Nonbusiness capital losses and gains are losses and gains from other than a trade or business. These include sales of stock, metals and other appreciable assets as well as any recognized gain from the sale of your personal residence.

Line 8 — Enter deductions that are from other than a trade or business and are not related to your employment (such as taxes, medical expenses, alimony, charitable contributions and your contributions to individual retirement plans). If you do not itemize your deductions, your nonbusiness deductions include the standard deduction. A casualty loss is considered a “business expense” regardless of whether it is connected with a trade or business; do not include it as a nonbusiness deduction.

Line 9 — Enter income that is from other than a trade or business (such as dividends, pensions, annuities, income from an endowment or interest earned on investments).

Line 10 through line 12 — You may subtract nonbusiness deductions only from nonbusiness income, including any nonbusiness capital gains that remain after deducting nonbusiness capital losses. If your nonbusiness deductions are larger than your nonbusiness income, you may not deduct the excess.

Line 13 through line 16 — You may deduct business capital losses only up to the total of business capital gains and any nonbusiness capital gains that remain after deducting nonbusiness capital losses and other nonbusiness deductions.

Line 17 — Add line 6 and line 16, but also reduce this amount by the difference between line 7 and line 10 of Schedule D (540). For purposes of this computation, treat line 7 and line 10 of Schedule D (540) as positive (estates and trusts use line 8 and line 10 of Schedule D (541)).

For purposes of this computation, net nonbusiness capital losses cannot offset net business capital gains. Complete the following:

Is line 5 greater than line 4? ☐ Yes ☐ No

Is line 13 greater than line 14? ☐ Yes ☐ No

If you answered “yes” to either or both of these questions, add line 6 and line 16, but do not enter an amount greater than your capital loss deduction.

If you answered “no” to both of these questions, reduce line 6 by the difference between line 7 and line 10 of Schedule D (Form 540) (estates and trusts use line 8 and line 10 of Schedule D (541)).

Line 18 — Enter the amount of your prior year NOL and disaster loss carryovers from Schedule CA (540 or 540NR) line 21(b) and line 21(d), column B or Form 541, line 15a.

Line 20 — Combine line 3c and line 19. Generally this loss will be less than the loss on line 3a. If this line is zero or greater, enter -0- you do not have an NOL.

Line 23 — Enter 50 percent of the amount on line 22 as a positive number. For taxpayers filing Form 540 or Form 541, this is your General NOL carryover to future years.

Enter the amounts on line 21 and line 23 in the appropriate Section of Part III. If you have an NOL from more than one source, assign the computed loss to the correct section. If you have an NOL or disaster loss from prior years (line 18), complete Part II and Part III, to determine the loss carryover to future years.

Form 540NR filers: Complete Part I, Section B, to determine your California NOL carryover.

Section B — Nonresidents and Part-Year Residents

Line 27 — Enter the amount of any NOL carried over from a prior year that is included on Schedule CA (540NR), line 21 (d), column B, plus any net capital loss amount on Schedule CA (540NR), line 13 column E.

Line 29 — Enter the smaller of line 25 or line 28. Your loss is limited to the lesser of negative California adjusted gross income (without deductions for net capital losses) or the NOL from all sources.

Line 33 — This is your deductible California NOL to be carried over to future years and entered on your Schedule CA (540NR) or, if you become a resident in the future, on your Schedule CA (540). Enter the amounts on line 30 and line 32 in the appropriate section of Part III. If you have operating losses from more than one source, you need to assign the computed loss to the correct section.

Part II — Modified Taxable Income (MTI)

Use this part if:

- you are carrying over an NOL from years prior to 1994;
- you are carrying over a disaster loss from years prior to 1994;
- you have an unused 1994 disaster loss to carry over.

The purpose of this part is to figure your modified taxable income (MTI). You must make certain modifications to your taxable income to determine how much of your prior year loss carryover has been used this year and how much you can carry over to next year. Your carryover to next year is the excess of your NOL deduction over your MTI.

This part is used to determine what your 1994 income (loss) was before taking any NOL carryover, disaster loss or disaster loss carryover deductions. This adjusted amount is called your MTI.

If you are a nonresident or part-year resident filing **Form 540NR**, note the special instructions for the various lines since you must **complete Parts II and III twice:** once to figure your NOL from all sources to be carried over to future years, and once to figure your California NOL to be carried over to future years.

Line 1 — Form 540 filers: Subtract Form 540, line 18 from Form 540, line 17. If negative, use brackets.

Form 541 filers: Subtract Form 541, line 18 from Form 541, line 17. If negative, use brackets.

Form 540NR filers: To figure your MTI from all sources, subtract Form 540NR, line 18 from Form 540NR, line 17. If negative, use brackets. To figure your California MTI, enter the amount from your 1994 Form 540NR, line 20.

Line 2 — Enter the net capital loss deduction (as a positive number), from your 1994 Schedule D, line 8, or Schedule D (541), line 10.

Note for Form 540NR filers: To figure your MTI from all sources, enter your net capital loss from your 1994 Schedule D. To figure your California MTI, enter the net capital loss from your 1994 Schedule CA (540NR), line 13, column E, determined in accordance with Schedule D.

Line 3 — Enter the disaster loss deduction (as a positive number) included on your 1994 Form 540 or Form 541.

Note for Form 540NR filers: To figure your MTI from all sources, enter the disaster loss deduction amount from your 1994 Schedule CA (540NR), line 21(b), column B. To figure your California MTI, enter the amount of disaster loss carryover deduction included on your 1994 Schedule CA (540NR), line 21, column E.

Line 4 – Enter the NOL carryover deduction (as a positive number), from your 1994 Schedule CA (540), line 21 (d), column B, or Form 541, line 15a.

Note for Form 540NR filers: To figure your MTI from all sources, enter the amount from your 1994 Schedule CA (540NR), line 21 (d), column B. To figure your California MTI, enter the amount of NOL deduction included on your 1994 Schedule CA (540NR), line 21, column E.

Part III – Limitations

Note: Keep this schedule with your records until you use all losses or they expire.

Use this section to figure the NOL or disaster loss deduction actually taken in 1994 and the total disaster losses and net operating losses to be carried over to future years. Use this section to keep track of the expiration and limitations of any unused carryovers.

There is no requirement to deduct net operating loss carryovers before disaster loss carryovers.

Section A – General NOL carryover means the general NOL available as a result of a loss incurred in years after 1986 under R&TC Section 17276. The carryover period for general NOLs is 5 years (6 years for losses incurred in 1991, 7 years for losses incurred from 1987 through 1990.) 1994 is the 7th and final carryover year for General NOLs incurred in 1987.

Section B – New business means any entity starting business activities in California on or after January 1, 1994. You may carry over 100 percent of NOL losses incurred in the first 3 years of operation for an extended period. The carryover period for losses incurred during the first year of business activity is 8 years. The carryover period for losses incurred during the second year of business activity is 7 years. The carryover period allowed for losses incurred during the third year of business activities is 6 years.

Note: Taxpayers who incurred losses from more than one “new business” activity must compute the allowable carryover for **each** loss in Section D.

Section C – Eligible small business carryover means an NOL incurred after January 1, 1994 by a business having gross receipts less returns and allowances of less than \$1 million. (R&TC Section 17276). You are allowed to carry over 100 percent of the computed net operating loss for a period of up to 5 years.

Section D – Title 11 bankruptcy means net operating losses incurred from 1987 through 1993 by taxpayers who were under the jurisdiction of the bankruptcy court in Title 11 bankruptcy proceedings **prior to** January 1, 1994. The allowable deduction is 50 percent of the computed loss. The carryover period is 10 years and applies to each of the 10 taxable years following the year of the loss. This provision does not apply to any loss incurred

in a year when the taxpayer was not under the jurisdiction of the bankruptcy court.

Section E – Disaster loss carryover is a casualty loss in a certain area of California declared by the President of the United States or the Governor of California to be in a state of disaster, and that has had special legislation enacted to authorize such relief (R&TC Sections 17207 and 17208).

If a specified disaster loss exceeds income in the year it is claimed, 100 percent of the excess may be carried over for up to 5 years. If any of the excess loss remains after the 5-year period, 50 percent of that remaining loss may be carried over for up to 10 additional years. Therefore, any 1989 disaster loss carryover to 1995 should be reduced by 50 percent. Following is a list of events that have had special legislation enacted:

Year	Code	Event
1994	14	San Luis Obispo fire and other related casualties.
1994	13	Los Angeles, Orange, and Ventura County Earthquake and related casualties.
1993	12	Storms, floods and other related casualties.
1992	11	Wildfires and other related casualties in Calaveras and Shasta Counties.
1992	10	San Bernardino County earthquake and other related casualties.
1992	9	Riots, arson and related casualties in California during April and May.
1992	8	Humboldt County earthquake and related casualties.
1992	7	Storms, floods and other related casualties.
1991	6	Oakland/Berkeley fire and other related casualties.
1990	5	Santa Barbara fires and other related casualties.
1989	4	Bay Area earthquake and other related casualties.
1987	3	Forest fires, October earthquake and other related casualties.
1986	2	Storms, floods, and other related casualties.
1985	1	Forest fires and related casualties occurring in California.

Line 1 – Enter the MTI from Part II, line 5. This is the maximum NOL carryover deduction you are allowed for 1994. NOL carryover amounts in excess of MTI may be eligible for carryover to 1995. See specific category explanations for the carryover limitations.

Column (a) – Enter the year(s), earliest first, the loss was incurred.

Column (b) – If the loss is due to a disaster, enter the disaster code from the list above. If the loss is from a new business or eligible small business, enter the principal business code from federal Schedule C (Form 1040), line B. Enter the agricultural activity code from Schedule F if this is a new farming enterprise. If the loss was from a new pass-through entity (partnership, Subchapter S corporation or limited liability company (LLC)), enter the California corporation number, the partnership's F.E.I.N. or the LLC's Secretary of State file number from the Schedule K-1.

Column (c) – enter the amount of the initial loss for the year given in column a.

Note: If you incurred losses from more than one “new business” activity or eligible small business, you must determine the allowable

carryover for **each** loss listed in Part III, Section B or Section C.

Note for Form 540NR filers: To figure your new business or eligible small business loss from all sources, enter the amount of the new business or eligible small business NOL included in Part I, line 21. To figure your California source new business NOL or eligible small business NOL, enter the amount of the new business or eligible small business NOL from Part I, line 30.

Column (d) – Enter the amount from your 1993 form FTB 3805V, Part II, column (e). You should have already reduced by 50 percent any remaining 1988 disaster loss carryover and entered it on your 1993 form FTB 3805V, line 14, column (e).

Column (e) – Enter the smaller of the amount in column (d) or the balance in column (f). If column (f) of the previous line has been reduced to zero, your remaining NOL carryover may be eligible for carryover to 1995. See the explanations for the specific NOL categories for carryover limitations.

Column (f) – Subtract column (e) from the balance in column (f) of the previous line and enter the result.

Column (g) – Subtract the amount in column (e) from the amount in column (d) and enter the result. Any remaining 1989 disaster loss carryover to 1995 must be reduced by 50 percent.

If you have a current year NOL under R&TC Section 17276.1 (relating to enterprise zone, program area or LARZ NOLs), you must **elect** on your original return to carry over your loss under that section or under R&TC Section 17276 (relating to general NOLs). The election is **irrevocable**. Get form FTB 3805Z or form FTB 3806.

Form 540NR filers: For purposes of figuring your NOL from California and all sources, the amount on this line will be carried over to your Schedule CA (540NR) in 1995.

Line 2 – NOL carryover – Total the carryover amounts from Sections A, B, C, and D, column (g).

Line 3 – Disaster loss carryover – Enter the total loss carryover amounts from Section E, column (g).